

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Herrick District Library	County Ottawa
Fiscal Year End 6/30/06	Opinion Date 10/20/06	Date Audit Report Submitted to State 12/8/06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>	No other reports required.	
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number (616) 975-4100	
Street Address 2330 E. Paris Avenue, P.O. Box 6547		City Grand Rapids	State MI
Authorizing CPA Signature 		Printed Name Stephen W. Blann, CPA, CGFM	Zip 49516
		License Number	24801

HERRICK DISTRICT LIBRARY

HOLLAND, MICHIGAN

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

HERRICK DISTRICT LIBRARY

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REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

INDEPENDENT AUDITORS' REPORT

October 20, 2006

Members of the District Library Board
Herrick District Library
Holland, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Herrick District Library, as of and for the year ended June 30, 2006, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of Herrick District Library. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Herrick District Library as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2006 on our consideration of Herrick District Library's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3-9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Herrick District Library's basic financial statements. The combining fund financial statements are presented for purposes of additional analysis and are not a required part of Herrick District Library's basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Lohman". The signature is written in a cursive style with a large, stylized 'L' at the beginning.

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Herrick District Library (the "Library"), we offer readers of the Herrick District Library financial statements this narrative review and analysis of the financial activities for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with additional information that is furnished in the financial statements and notes to the financial statements.

Financial Highlights

Again this year we did not use all funds that the Board budgeted for library operations for the year. The reasons are two fold: our income projections were exceeded by about \$112,000 but all of our budgeted activity did not occur. While we saw \$40,000 more income from our millage and \$70,000 more in interest earnings than we budgeted, we were not able to contract for professional services to move the building projects again this year. We need to explore our financing options further to learn what limitation there may be, if any, on the expansion of the North Branch Library and renovation of the Herrick Library. We have yet to pay off the original bonds issued by the Holland Building Authority to construct the buildings we are in.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Library's financial statements. The Library's basic financial statements comprise three components:

1. Government-wide statements
2. Fund financial statements, and
3. Notes to the financial statements

This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Statements

The *statement of net assets* presents information on all of the Library's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Library is improving or deteriorating.

The *statement of activities* presents information showing how the Library's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related* cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in past or future fiscal periods (for instance, depreciation expense associated with capital assets).

The government-wide financial statements can be found on pages 10 and 11 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Library, like other units of state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The activity of the Library is accounted for in governmental funds, proprietary funds and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same function reported in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for the governmental funds with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the governmental funds and the government-wide statements.

The Library maintains three governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund, capital projects fund, and permanent fund each of which are major funds for financial reporting purposes as defined by GASB Statement #34.

The Library adopts an annual appropriated budget for the General fund. A budgetary comparison statement has been provided herein to demonstrate compliance with that budget.

The basic governmental fund financial statements can be found on pages 12-16 of this report.

The Library maintains two proprietary funds. Financial statements can be found on pages 17-19 of this report.

The Library also maintains fiduciary funds, which can be found on page 20 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the Library's financial statements. The notes to the financial statements can be found on pages 21-31 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information*. This is limited to this management discussion and analysis.

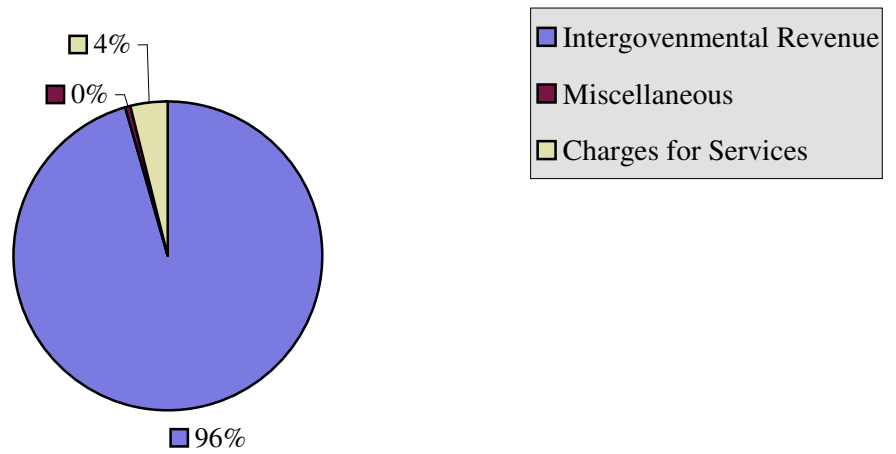
Herrick District Library Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
Current and other assets	\$ 5,702,163	\$ 5,698,892	\$1,978	\$1,477	\$ 5,704,141	\$ 5,700,369
Capital assets	10,776,971	10,338,142	-	-	10,776,971	10,338,142
Total assets	<u>16,479,134</u>	<u>16,037,034</u>	<u>1,978</u>	<u>1,477</u>	<u>16,481,112</u>	<u>16,038,511</u>
Long-term liabilities outstanding	6,840,293	6,156,861	-	-	6,840,293	6,156,861
Other liabilities	187,929	205,992	267	343	188,196	206,335
Total liabilities	<u>7,028,222</u>	<u>6,362,853</u>	<u>267</u>	<u>343</u>	<u>7,028,489</u>	<u>6,363,196</u>
Net assets:						
Invested in capital assets, net of related debt	4,131,971	4,393,142	-	-	4,131,971	4,393,142
Unrestricted	<u>5,318,941</u>	<u>5,281,039</u>	<u>1,711</u>	<u>1,134</u>	<u>5,320,652</u>	<u>5,282,173</u>
Total net assets	<u>\$ 9,450,912</u>	<u>\$ 9,674,181</u>	<u>\$1,711</u>	<u>\$1,134</u>	<u>\$ 9,452,623</u>	<u>\$ 9,675,315</u>

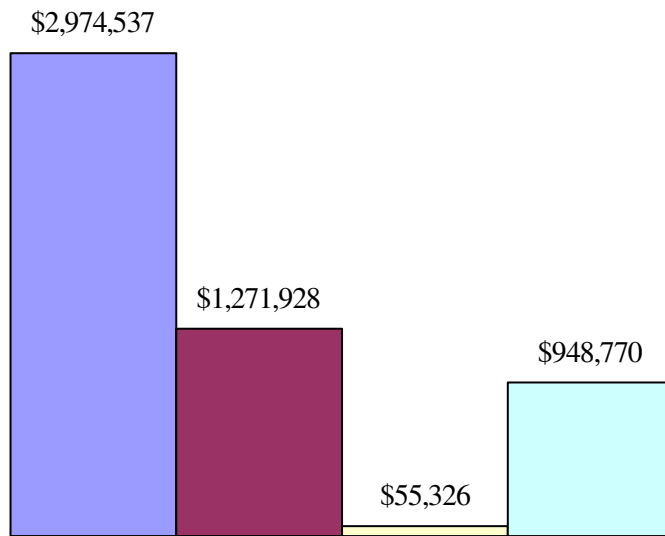
Herrick District Library Change in Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>
Revenue:						
Program revenue:						
Charges for services	\$ 193,529	\$ 204,188	\$3,750	\$3,214	\$ 197,279	\$ 207,402
Operating grants	20,432	18,737	-	-	20,432	18,737
General revenue:						
Intergovernmental revenue	4,805,904	4,937,364	-	-	4,805,904	4,937,364
Investment earnings (loss)	(397,861)	29,800	-	-	(397,861)	29,800
Total revenue	<u>4,622,004</u>	<u>5,190,089</u>	<u>3,750</u>	<u>3,214</u>	<u>4,625,754</u>	<u>5,193,303</u>
Expenses:						
Library services	4,535,521	4,736,107	-	-	4,535,521	4,513,182
Employee vending services	-	-	5,403	4,191	5,403	4,191
Interest on long-term debt	267,725	248,770	-	-	267,725	248,770
Total expenses	<u>4,803,246</u>	<u>4,984,877</u>	<u>5,403</u>	<u>4,191</u>	<u>4,808,649</u>	<u>4,766,143</u>
Increase (decrease) before transfers	(181,242)	205,212	(1,653)	(977)	(182,895)	204,235
Transfers	(400)	(400)	400	400	-	-
Increase (decrease) in net assets	<u>(181,642)</u>	<u>204,812</u>	<u>(1,253)</u>	<u>500</u>	<u>(182,895)</u>	<u>204,235</u>
Net assets – beginning of year	<u>9,632,554</u>	<u>9,469,369</u>	<u>2,964</u>	<u>1,711</u>	<u>9,635,518</u>	<u>9,471,080</u>
Net assets – end of year	<u>\$9,450,912</u>	<u>\$ 9,674,181</u>	<u>\$1,711</u>	<u>\$1,134</u>	<u>\$9,452,623</u>	<u>\$9,675,315</u>

Revenues by Source - Governmental Funds



Expenditures - Governmental Funds



■ Personal services ■ Other ■ Capital outlay ■ Debt service

General Fund Budgetary Highlights

There were no significant modifications from the original to the amended budget for the general fund during the current year.

Capital Assets and Debt Administration

Capital Assets

Herrick District Library Capital Assets (net of depreciation)

	Governmental Activities	
	2005	2006
Land	\$ 617,975	\$ 617,975
Construction in progress	303	1,513
Office equipment and furniture	750,667	690,965
Building and improvements	9,248,859	8,857,221
Equipment and machinery	159,167	170,468
Total	<u>\$10,776,971</u>	<u>\$10,338,142</u>

Additional information on the Library's capital assets can be found in note 3 on page 28 of this report.

Long-term debt

Herrick District Library Outstanding Debt

	Governmental Activities	
	2005	2006
Capital lease agreements	<u>\$6,645,000</u>	<u>\$5,945,000</u>

Additional information on the Library's long-term debt can be found in Note 5 on pages 30 and 31 of this report.

Economic Factors and Next Year's Budgets and Rates

This year public libraries saw their financial support from the State of Michigan decrease. This State aid is going to continue to be unpredictable until the State's economy stabilizes and a revised corporate tax structure is in place.

Fortunately the loss of \$16,000 in State aid was offset by an increase in \$30,000 in penal fines. While the instability of State aid presents a problem for us, the possibility that penal fine revenue may begin to trend upward would be good news. Revenue from the District Courts penal fine assessments is four times more important to us than State aid. We are hopeful that the impact of the Legislature's "parallel ordinance" legislation has reached its peak. Again, however, penal fines are as predictable as State aid. It will take a few more years before we can tell if this year was the beginning of good news regarding penal fine revenue.

As in the past, it is the local millage that really makes the Herrick District Library what it has become. We have written about the impact we experience by applying the same millage rate across all four municipalities within the district library agreement: we see revenue growth that does not keep pace with inflation:

<u>MUNICIPALITY</u>	<u>MILLAGE THIS YEAR</u>	<u>MILLAGE LAST YEAR</u>	<u>DIFFERENCE AS PERCENT</u>
Holland City	1,495,284	1,482,784	12,500 (0.84%)
Holland Township	1,595,740	1,554,845	40,895 (2.63%)
Laketown Township	383,409	376,827	6,582 (1.7%)
<u>Park Township</u>	<u>1,033,820</u>	<u>1,001,301</u>	<u>32,519 (3.25%)</u>
All Jurisdictions	4,508,253	4,415,757	92,496 (2.1%)

It is possible that a day will come when one or more of the participating municipalities will provide less revenue to the Library's budget than it did in the previous year. This comes about because of the varying rates of property development occurring across the district as well as the use of tax increment financing plans to encourage economic development.

Financial Analysis of the Government's Funds

If the Library could not see improvement in its operating revenue coming in 2010, planning for the future would be bleak. However, when a part of the Library's construction debt is paid of in 2010, the residual capital millage that is subtracted from the total "rolled back" voted 1.5 mils might permit the operational millage to return to the original voted 1.1 mils. Given this opportunity and a healthy fund balance, the Board has approved budgets that exceed the revenue from the Library's annual operating millage. This has permitted the Library to maintain the level of service its customers enjoy.

Every year the Board will need to assess whether the taxpayers are well served by that action or not. The use of our buildings suggests our taxpayers are enthusiastic about their libraries:

<u>LIBRARY</u>	<u>CIRCULATION THIS YEAR</u>	<u>CIRCULATION LAST YEAR</u>	<u>DIFFERENCE AS PERCENT</u>
Herrick	996,086	965,747	3.14%
<u>North Branch</u>	<u>246,654</u>	<u>221,299</u>	<u>11.46%</u>
Both libraries	1,242,740	1,187,046	4.69%

In fact, at 11 circulations per person, the level of circulation here ranks among the top dozen busiest libraries throughout the State.

Given this reality, we believe the Library Board has made the right decision.

This situation would be challenging in and of itself but it is made even more challenging because the Library, like other public libraries, is in the middle of significant transitions in formats to inform and entertain our community. We are challenged to make the maximum use of electronic and digital resources while we maintain our traditional level of print materials. We are challenged to add new audiovisual formats while our users are still enjoying earlier formats. These challenges may be managed comfortably when finances increase to meet them. However, in our tight financial situation we need to move cautiously and sometimes abruptly when we commit to new formats. Our budget does not permit otherwise.

Beyond these issues, we are keeping a watchful eye on a lawsuit that has been filed on the east side of the State. It concerns the rights of those who do not pay taxes in support of a public library to fully access services from that library. It may impact how communities contract to serve their residents. Should service contracts become null and void, it would further reduce our state aid and penal fine support by as much as \$85,000. The Supreme Court is expected to hear the case during their 2006/07 term.

Requests for information

This financial report is designed to provide a general overview of the Library's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Director, Herrick District Library, 300 South River Avenue, Holland, Michigan 49423.

BASIC FINANCIAL STATEMENTS

HERRICK DISTRICT LIBRARY

Statement of Net Assets

June 30, 2006

	Governmental Activities	Business- Type Activities	Total
Assets			
Cash and pooled investments	\$ 5,289,747	\$ 1,054	\$ 5,290,801
Receivables - net:			
Accounts	-	423	423
Taxes	1,536	-	1,536
Due from other governmental units	407,609	-	407,609
Capital assets			
Land	617,975	-	617,975
Construction in progress	1,513	-	1,513
Depreciable capital assets, net	9,718,654	-	9,718,654
Total assets	16,037,034	1,477	16,038,511
Liabilities			
Accounts payable	124,614	343	124,957
Accrued payroll and benefits	43,480	-	43,480
Accrued interest	37,898	-	37,898
Long term liabilities:			
Earned employee compensated absences	211,861	-	211,861
Capital leases payable:			
Due within one year	760,000	-	760,000
Due after one year	5,185,000	-	5,185,000
Total liabilities	6,362,853	343	6,363,196
Net assets			
Invested in capital assets, net of related debt	4,393,142	-	4,393,142
Unrestricted	5,281,039	1,134	5,282,173
Total net assets	\$ 9,674,181	\$ 1,134	\$ 9,675,315

The accompanying notes are an integral part of these financial statements.

HERRICK DISTRICT LIBRARY

Statement of Activities

Year Ended June 30, 2006

Functions / Programs	Expenses	Program Revenues		Net (Expenses) Revenue and Changes In Net Assets		Total
		Charges for Services	Operating Grants	Governmental Activities	Business-type Activities	
Governmental activities						
Library services	\$ 4,736,107	\$ 204,188	\$ 18,737	\$ (4,513,182)	\$ -	\$ (4,513,182)
Interest on long-term debt	248,770	-	-	(248,770)	-	(248,770)
	4,984,877	204,188	18,737	(4,761,952)	-	(4,761,952)
Business-type activities						
Employee's vending fund	\$ 4,191	\$ 3,214	\$ -	-	(977)	(977)
General revenues						
Intergovernmental				4,937,364	-	4,937,364
Unrestricted investment earnings				29,800	-	29,800
Transfers - internal activities				(400)	400	-
Total general revenues and transfers				4,966,764	400	4,967,164
Change in net assets				204,812	(577)	204,235
Net assets - beginning of year, as restated				9,469,369	1,711	9,471,080
Net assets - ending of year				\$ 9,674,181	\$ 1,134	\$ 9,675,315

The accompanying notes are an integral part of these financial statements.

HERRICK DISTRICT LIBRARY

Balance Sheet Governmental Funds

June 30, 2006

	<u>General</u>	<u>Capital Projects</u>	<u>Endowment Special Revenue</u>	<u>Total</u>
Assets				
Cash and pooled investments	\$ 2,857,294	\$ 309,356	\$ 1,911,236	\$ 5,077,886
Receivables - Net:				
Due from Other Governmental Units	407,609	-	-	407,609
Taxes	1,536	-	-	1,536
Total assets	\$ 3,266,439	\$ 309,356	\$ 1,911,236	\$ 5,487,031
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 124,558	\$ -	\$ 56	\$ 124,614
Accrued payroll and benefits	43,480	-	-	43,480
Total liabilities	168,038	-	56	168,094
Fund balances				
Unreserved				
Designated				
For reinvestment	-	-	1,261,328	1,261,328
Replacement of equipment	56,101	-	150,000	206,101
Undesignated	3,042,300	309,356	499,852	3,851,508
Total fund balances	3,098,401	309,356	1,911,180	5,318,937
Total liabilities and fund balances	\$ 3,266,439	\$ 309,356	\$ 1,911,236	\$ 5,487,031

The accompanying notes are an integral part of these financial statements.

HERRICK DISTRICT LIBRARY

Reconciliation of the Fund Balances on the Balance Sheet for the Governmental Funds to the Net Assets of the Governmental Activities on the Statement of Net Assets

June 30, 2006

Fund balances- total governmental funds	\$ 5,318,937
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Amounts reported for governmental activities in the statement of net assets
are different because:

Capital assets used in the governmental activities are not financial resources and
therefore are not reported in the funds.

Add - land	617,975
Add - construction in progress	1,513
Add - capital assets	13,252,898
Deduct - accumulated depreciation	(3,534,244)

Certain liabilities, such as leases payable, are not due and payable in the current
period and therefore are not reported in the funds.

Deduct - leases payable	(5,945,000)
Deduct - accrued interest on long term liabilities	<u>(37,898)</u>

Net assets of governmental activities	<u>\$ 9,674,181</u>
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The accompanying notes are an integral part of these financial statements.

HERRICK DISTRICT LIBRARY

Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds

Year Ended June 30, 2006

	General	Capital Projects	Endowment Special Revenue	Total
Revenues				
Intergovernmental	\$ 4,937,364	\$ -	\$ -	\$ 4,937,364
Charges for services, fines and fees	204,145	-	-	204,145
Investment earnings (loss)	143,086	12,044	(125,330)	29,800
Miscellaneous	714	-	18,066	18,780
Total revenues	5,285,309	12,044	(107,264)	5,190,089
Expenditures				
Current:				
Personal services	2,974,537	-	-	2,974,537
Other services and charges	1,268,125	-	3,803	1,271,928
Debt service:				
Principal	700,000	-	-	700,000
Interest	248,770	-	-	248,770
Capital outlay	54,116	1,210	-	55,326
Total expenditures	5,245,548	1,210	3,803	5,250,561
Revenues over (under) expenditures	39,761	10,834	(111,067)	(60,472)
Other financing sources (uses)				
Transfers in	5,500	-	-	5,500
Transfers out	(400)	-	(5,500)	(5,900)
Total other financing sources (uses)	5,100	-	(5,500)	(400)
Net changes in fund balances	44,861	10,834	(116,567)	(60,872)
Fund balances, beginning of year, as restated	3,053,540	298,522	2,027,747	5,379,809
Fund balances, end of year	\$ 3,098,401	\$ 309,356	\$ 1,911,180	\$ 5,318,937

The accompanying notes are an integral part of these financial statements.

HERRICK DISTRICT LIBRARY

Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balances of Governmental Funds to the Statement of Activities

Year Ended June 30, 2006

Net change in fund balances - total governmental funds \$ (60,872)

Amounts reported for governmental activities in the statement of activities
are different because:

Governmental funds report capital outlay as expenditures. However, in the
statement of activities, the cost of these assets is allocated over their estimated
useful lives and reported as depreciation expense.

Add - capital outlay	55,826
Deduct - depreciation expense	(492,806)

Repayment of lease principal is an expenditure in the governmental funds, but the repayment
reduces long-term liabilities in the statement of net assets.

Add - principal payments on long-term leases	700,000
--	---------

Some expenses reported in the statement of activities do not require the use of current
financial resources and therefore are not reported as expenditures in the funds.

Deduct - disposal of undepreciated capital assets	(1,849)
Add - decrease in accrued interest on long term liabilities	4,513

Change in net assets of governmental activities \$ 204,812

The accompanying notes are an integral part of these financial statements.

HERRICK DISTRICT LIBRARY

Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual General Fund

Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance Over (Under)
Revenues				
Intergovernmental	\$ 4,888,571	\$ 4,888,571	\$ 4,937,364	\$ 48,793
Charges for services, fines and fees	210,950	210,950	204,145	(6,805)
Investment earnings	73,000	73,000	143,086	70,086
Miscellaneous	1,200	1,200	714	(486)
Total revenues	5,173,721	5,173,721	5,285,309	111,588
Expenditures				
Current:				
Personal services	3,061,511	3,061,511	2,974,537	(86,974)
Other services and charges	1,346,526	1,372,126	1,268,125	(104,001)
Debt service				
Principal	700,000	700,000	700,000	-
Interest	248,770	248,770	248,770	-
Capital outlay	90,000	86,432	54,116	(32,316)
Total expenditures	5,446,807	5,468,839	5,245,548	(223,291)
Revenues over (under) expenditures	(273,086)	(295,118)	39,761	334,879
Other financing sources (uses)				
Transfers in	75,000	75,000	5,500	(69,500)
Transfers out	(400)	(400)	(400)	-
Total other financing sources (uses)	74,600	74,600	5,100	(69,500)
Net changes in fund balances	(198,486)	(220,518)	44,861	265,379
Fund balances, beginning of year, as restated	3,053,540	3,053,540	3,053,540	-
Fund balances, end of year	\$ 2,855,054	\$ 2,833,022	\$ 3,098,401	\$ 265,379

The accompanying notes are an integral part of these financial statements.

HERRICK DISTRICT LIBRARY

Statement of Net Assets Proprietary Funds

June 30, 2006

	Business-Type Activities	Governmental Activities
	Employee Vending Fund	Compensated Absences Internal Service Fund
Assets		
Cash and pooled investments	\$ 1,054	\$ 211,861
Accounts receivable - net	423	-
Total assets, all current	1,477	211,861
Liabilities		
Current liabilities		
Accounts payable	343	-
Non-current liabilities		
Earned employee compensated absences	-	211,861
Total liabilities	343	211,861
Net assets		
Unrestricted	\$ 1,134	\$ -

The accompanying notes are an integral part of these financial statements.

HERRICK DISTRICT LIBRARY

Statement of Revenues, Expenses and Changes in Net Assets Proprietary Funds

Year Ended June 30, 2006

	Business-Type Activities	Governmental Activities
	Employee Vending Fund	Compensated Absences Internal Service Fund
Operating revenues		
User fees and charges for services	\$ 3,214	\$ 16,568
Operating expenses		
Operations	4,191	16,568
Operating income (loss)	(977)	-
Transfers		
Transfers in	400	-
Change in net assets	(577)	-
Net assets, beginning of year	1,711	-
Net assets, end of year	\$ 1,134	\$ -

The accompanying notes are an integral part of these financial statements.

HERRICK DISTRICT LIBRARY

Statement of Cash Flows Proprietary Funds

Year Ended June 30, 2006

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Employee Vending Fund</u>	<u>Compensated Absences Internal Service Fund</u>
Cash flows from operating activities		
Receipts from interfund services provided	\$ -	\$ 16,568
Receipts from customers	2,874	-
Payments to suppliers	(4,115)	-
Net cash provided by (used in) operating activities	(1,241)	16,568
Cash flows from noncapital financing activities		
Transfer in	400	-
Net increase (decrease) in cash and pooled investments	(841)	16,568
Cash and pooled investments, beginning of year	1,895	195,293
Cash and pooled investments, end of year	\$ 1,054	\$ 211,861
Cash flows from operating activities		
Operating loss	\$ (977)	\$ -
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Changes in operating assets and liabilities which provided (used) cash:		
Accounts receivable	(340)	-
Accounts payable	76	-
Compensated absences payable	-	16,568
Net cash provided by (used in) operating activities	\$ (1,241)	\$ 16,568

The accompanying notes are an integral part of these financial statements.

HERRICK DISTRICT LIBRARY

Statement of Fiduciary Assets and Liabilities Agency Funds

June 30, 2006

Assets

Cash and pooled investments	\$	48,708
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Liabilities

Other accrued liabilities and deposits	\$	48,708
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The accompanying notes are an integral part of these financial statements.

HERRICK DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Herrick District Library (the "Library") conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

The Reporting Entity

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the Library. There are no component units to be included. Criteria for including a component unit include entities for which the Library is considered to be financially accountable.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Agency funds, however, do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

HERRICK DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library.

The Library reports the following major funds:

The *General Fund* is the Library's primary operating fund. It accounts for all the financial resources of the general government, except those required to be accounted for in another fund.

The *Capital Projects Fund* accounts for the accumulation of resources and disbursements for construction projects of governmental funds.

The Endowment *Special Revenue Fund* is used to account for the balances and activities from contributions made to provide funds for library operations.

The *Employee Vending Enterprise Fund* is used to account for the balances and activities of the various activities benefiting employees which is financed through user charges which support this service.

Additionally, the Library reports the following fund types:

The *Internal Service Fund* accounts for the accumulation of both the liability and the resources to pay the compensated absences liability at year end.

Agency Funds are used to account for assets held on behalf of outside parties, including other governments.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standard do not conflict with or contradict guidance of Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges for services. Operating expenses for the enterprise fund include cafeteria expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenue and expenses.

HERRICK DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

Budgets and Budgetary Accounting

Comparisons to budget are presented for the general fund as required by generally accepted accounting principles. The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Library Director submits to the District Library Board a proposed operating budget for the fiscal year commencing the following July 1.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for the general fund.
5. Budgets for the General Fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).
6. Adoption and amendments of all budgets used by the Library are governed by Public Act 621, which was followed for the year ended June 30, 2006. Expenditures may not exceed appropriations. The appropriations resolutions are based on the projected expenditures. Any amendment to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any fund must be approved by the District Library Board.
7. Budgets for expenditures are adopted at the fund level.
8. Budgeted amounts are as originally adopted, or as amended by the District Library Board.

Cash and Pooled Investments

For purposes of the statement of cash flows, the Library considers all assets held in the cash and investment pool to be cash equivalents because the investments are not identifiable to specific funds and the assets can be withdrawn at anytime, similar to a demand deposit account.

Investments

Investments consist of U.S. Government backed debt securities and money market funds. Investments are carried at fair value.

Statutory Authority

State statues authorize the Library to invest in:

- a. Bond, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.

HERRICK DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

- b. Certificates of deposit, savings accounts, deposit accounts, depository receipts of a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Depreciation on capital assets of the Library is computed using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Land improvements	10-20
Buildings	40
Equipment and machinery	7-10
Office equipment and furniture	5-7

The Library has elected not to capitalize its collection of library books because management feels that to do so would be impractical. Purchases of books are recorded as current expenditures in the year purchased. Purchases of library books for the year ended June 30, 2006 amounted to \$274,682.

HERRICK DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2006

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. the face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Intergovernmental Revenue

The Library's primary source of funding is intergovernmental revenue. This funding includes contributions by the City of Holland, Holland Charter Township, Park Township and Laketown Township based on collection of a unified millage on property values. This revenue source also includes Library State Aid and fines collected by other governments.

Accrued Vacation Time

Under contracts negotiated with employee groups, individual employees have a vested right to receive payments for unused vacation benefits under formulas and conditions specified in the contracts.

Accrued vacation leave is recorded as an internal service fund liability at June 30, 2006.

Interfund Transactions

During the course of normal operations, the Library has numerous transactions between funds, including expenditures and transfers of resources to provide services and subsidies. The accompanying financial statements generally reflect such transactions as revenues and expenditures and transfers. The amounts recorded as subsidies, advances, or equity contributions are determined by the Library.

Transfers In	Transfers Out		
	General Fund	Endowment Special Revenue Fund	Total
Major Governmental Fund:			
General Fund	\$ -	\$ 5,500	\$ 5,500
Major Enterprise Fund:			
Employee Vending Fund	400	-	400
Total	\$ 400	\$ 5,500	\$ 5,900

HERRICK DISTRICT LIBRARY

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2006

Transfers are used to move revenues earned in the Endowment Special Revenue and General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Risk Management

The Library is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2006, the Library carried commercial insurance to cover all risks of losses. The Library has had no settled claims resulting from these risks that exceeded their commercial coverage in the past fiscal year.

2. DEPOSITS AND INVESTMENTS

The captions on the financial statements relating to deposits and investments are as follows:

	Governmental Activities	Business- type Activities	Fiduciary Funds	Total
Cash and pooled investments	\$ 5,289,747	\$ 1,054	\$ 48,708	\$5,339,509

Cash and pooled investments consists of the following:

Checking/savings accounts	\$1,257,564
Certificates of deposit (due within one year)	2,128,692
Investments	1,951,630
Petty cash	1,623
	<u>\$5,339,509</u>

Deposits and certificates of deposit are in four (4) financial institutions located in Michigan. State law limits the Library's depository options to financial institutions located in Michigan. All accounts are in the name of the Library.

The Library chooses to disclose its investments by specifically identifying each. As of year end, the Library had the following investments:

Investments

	Maturity	Fair Value	Rating
Fifth Third Government Money Market Fund	N/A	\$ 49,290	Unrated
Federal Home Loan Bank Debt Securities	12/29/06	995,630	S&P AAA
Federal Home Loan Bank Debt Securities	6/13/08	906,710	S&P AAA
		<u>\$1,951,630</u>	

HERRICK DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

Investment and Deposit Risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in Note 1 (summary of significant accounting policies). The Library's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The maturity dates for each applicable investment are identified above for investments held at year-end.

Credit Risk. State law limits investments to specific government securities, certificates of deposits and bank accounts with qualified financial institutions, commercial paper with specific maximum maturities and ratings when purchased, bankers acceptances of specific financial institutions, qualified mutual funds and qualified external investment pools as identified in Note 1 (summary of significant accounting policies). The Library investment policy does not have specific limits in excess of state law on investment credit risk. Credit ratings for investments held at year are identified above.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned. The Library minimizes this risk by pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors to be in compliance with the requirements set forth in the Library's investment policy. As of year end, \$1,981,053 of the Library's bank balance of \$2,381,053 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Library will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Library minimized this risk by pre-qualifying the financial institutions, brokers/dealers, intermediaries and advisors to be in compliance with the requirements set forth in the Library's investment policy. Of the above \$1,951,630 in investments, the Library has a custodial credit risk exposure of \$1,902,340 because the related securities are uninsured, unregistered and held by the government's brokerage firm which is also the counterparty for these particular securities. Mutual funds are not subject to custodial credit because there are specifically identifiable securities associated with the Library's portion of each fund.

Concentration of Credit Risk. State law limits allowable investments but does not limit concentration of credit risk as identified in Note 1 (summary of significant accounting policies). The Library's investment policy does not have specific limits in excess of state law on concentration of credit risk.

HERRICK DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

3. CAPITAL ASSETS

Changes in capital assets for the year ending June 30, 2006, are as follows:

	Balance July 1, 2005	Additions	Dispositions	Balance June 30, 2006
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 617,975	\$ -	\$ -	\$ 617,975
Construction in progress	303	1,210	-	1,513
Total capital assets, not being depreciated	<u>618,278</u>	<u>1,210</u>	<u>-</u>	<u>619,488</u>
Capital assets, being depreciated				
Improvements other than buildings	191,433	-	-	191,433
Buildings	11,368,578	-	-	11,368,578
Equipment and machinery	533,451	50,288	30,676	553,063
Office equipment and furniture	1,135,496	4,328	-	1,139,824
Total capital assets being depreciated	<u>13,228,958</u>	<u>54,616</u>	<u>30,676</u>	<u>13,252,898</u>
Less accumulated depreciation for:				
Improvements other than buildings	60,099	8,947	-	69,046
Buildings	2,251,053	382,691	-	2,633,744
Equipment and machinery	374,284	37,138	28,827	382,595
Office equipment and furniture	384,829	64,030	-	448,859
Total accumulated depreciation	<u>3,070,265</u>	<u>492,806</u>	<u>28,827</u>	<u>3,534,244</u>
Total capital assets, being depreciated, net	<u>10,158,693</u>	<u>(438,190)</u>	<u>1,849</u>	<u>9,718,654</u>
Governmental activities capital assets, net	<u>\$10,776,971</u>	<u>\$ (436,980)</u>	<u>\$ 1,849</u>	<u>\$10,338,142</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
Library services	<u>\$492,806</u>

HERRICK DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

4. DEFINED BENEFIT PENSION PLAN

Municipal Employees Retirement System of Michigan

The Library participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer defined pension plan providing retirement, death and disability benefits covering full-time and part-time Library employees. The System is administered by the MERS retirement board. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefit provisions of the participants in MERS. A publicly available financial report that includes financial statements and required supplementary information for MERS may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 North Canal Road, Lansing, Michigan 48917 or by calling (800) 767-6377.

The Library is required to contribute at an actuarially determined rate; the current rate is 11.50% of annual covered payroll. Participating employees are not required to contribute to the Plan. The contribution requirements of the Library are established and may be amended by the MERS Retirement Board.

The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8%; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 4.16% per year, depending on age, attributable to seniority/merit. The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return and includes an adjustment to reflect market value. The Library's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2005, the date of the latest actuarial valuation, was 30 years.

The Library's Annual Pension Cost and Net Pension Obligation for the current year are as follows:

Annual pension cost	\$ 202,996
Contributions made	<u>(202,996)</u>
Decrease in net Pension Obligation	-
Net Pension Obligation beginning of year	<u>-</u>
Net Pension Obligation end of year	<u>\$ -</u>

HERRICK DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

Three-Year Trend Information

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2004	\$179,267	100%	\$ -
2005	202,843	100%	-
2006	202,996	100%	-

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/03	\$3,124,434	\$4,085,463	\$961,029	76%	\$1,606,096	60%
12/31/04	3,377,173	4,341,350	964,177	78%	1,695,922	57%
12/31/05	3,659,438	4,676,324	1,016,886	78%	1,658,699	61%

5. LONG-TERM DEBT

The following is a summary of debt transactions of the Library for the year ended June 30, 2006:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2006</u>	<u>Due Within One Year</u>
Capital lease payable to the City of Holland Building Authority, due in annual installments of \$325,000 to \$350,000, through May 1, 2009, interest at 4.30% to 4.375%.	\$ 1,300,000	\$ -	\$ 275,000	\$ 1,025,000	\$ 325,000

HERRICK DISTRICT LIBRARY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2006</u>	<u>Due Within One Year</u>
Capital lease payable to the City of Holland Building Authority, due in annual installments of \$425,000 to \$475,000, through May 2017, interest at 2.25% to 4.35%.	\$ 5,345,000	\$ -	\$ 425,000	\$4,920,000	\$ 435,000
Subtotal – installment debt	6,645,000	-	700,000	5,945,000	760,000
Compensated absences	195,293	16,568	-	211,861	-
Total	\$ 6,840,293	\$ 16,568	\$ 700,000	\$6,156,861	\$ 760,000

The following is a schedule of annual future minimum lease payments required under the capital leases payable at June 30, 2006:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 760,000	\$ 227,383	\$ 987,383
2008	785,000	202,532	987,532
2009	805,000	174,432	979,432
2010	435,000	144,332	579,332
2011	445,000	131,282	576,282
2012-2016	2,285,000	372,348	2,657,348
2017	430,000	18,277	448,277
Total	\$ 5,945,000	\$ 1,270,586	\$ 7,215,586

6. RESTATEMENT OF PRIOR YEAR

Fund balance of the general fund was increased by \$322,655 as of July 1, 2005 to properly reflect the accrual of penal fines at year end. Net assets of governmental activities and fund balance of the general fund were both increased by \$18,457 to properly record self-insurance premiums in the correct accounting period.

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COMBINING FINANCIAL STATEMENTS

FIDUCIARY FUNDS

HERRICK DISTRICT LIBRARY

Combining Statement of Fiduciary Assets and Liabilities Agency Funds

June 30, 2006

	<u>Imprest Payroll</u>	<u>Employees' Flexible Benefits Plan</u>	<u>Total</u>
Assets			
Cash and pooled investments	\$ 43,604	\$ 5,104	\$ 48,708
Liabilities			
Other accrued liabilities and deposits	\$ 43,604	\$ 5,104	\$ 48,708

HERRICK DISTRICT LIBRARY

Combining Statement of Changes in Assets and Liabilities Agency Funds

Year Ended June 30, 2006

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2006</u>
<u>Imprest Payroll</u>				
Assets				
Cash and pooled investments	\$ 42,519	\$ 8,307,007	\$ 8,305,922	\$ 43,604
Accounts receivable	561	-	561	-
Total assets	\$ 43,080	\$ 8,307,007	\$ 8,306,483	\$ 43,604
Liabilities				
Other accrued liabilities and deposits	\$ 43,080	\$ 2,305,080	\$ 2,304,556	\$ 43,604
<u>Employees' Flexible Benefits Plan</u>				
Assets				
Cash and pooled investments	\$ 5,079	\$ 22,389	\$ 22,364	\$ 5,104
Liabilities				
Other accrued liabilities and deposits	\$ 5,079	\$ 23,364	\$ 23,339	\$ 5,104
<u>Total - All Agency Funds</u>				
Assets				
Cash and pooled investments	\$ 47,598	\$ 8,329,396	\$ 8,328,286	\$ 48,708
Accounts receivable	561	-	561	-
Total assets	\$ 48,159	\$ 8,329,396	\$ 8,328,847	\$ 48,708
Liabilities				
Other accrued liabilities and deposits	\$ 48,159	\$ 2,328,444	\$ 2,327,895	\$ 48,708

COMPLIANCE AND INTERNAL CONTROL



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

October 20, 2006

Members of the District Library Board
Herrick District Library
Holland, Michigan

We have audited the financial statements of the government activities, the business-type activities, each major fund and the aggregate remaining fund information of Herrick District Library as of and for the year ended June 30, 2006, and have issued our report thereon dated October 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Herrick District Library's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Herrick District Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Library Board and management, and is not intended to be and should not be used by anyone other than these specified parties.



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

October 20, 2006

District Library Board
Herrick District Library
300 S. River Avenue
Holland, MI 49423

In planning and performing our audit of the financial statements of Herrick District Library for the year ended June 30, 2006, we considered the Library's internal controls to determine our auditing procedures for the purpose of expressing an opinion of the financial statements and not to provide assurance on the internal controls.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. We previously reported on the Library's internal control in our report dated October 20, 2006, on the financial statements of the Herrick District Library. This letter does not affect our report dated October 20, 2006 on the financial statements of Herrick District Library.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various personnel, and we will be pleased to discuss them in further detail at your convenience, perform any additional study of these matters, or to assist management in implementing the recommendations. Our comments are summarized as follows:

Internal Controls – Segregation of Duties

Management is responsible for establishing and maintaining effective internal control over financial reporting and the safeguarding of the Library's assets. In establishing appropriate internal controls, careful consideration must be given to the cost of a particular control and the related benefits to be received. Accordingly, management must make the difficult decision of what degree of risk it is willing to accept, given the Library's unique circumstances.

As is the case with many organizations of similar size, the Library lacks a sufficient number of accounting personnel in order to ensure a complete segregation of duties within its accounting function. Ideally, no single individual should ever be able to authorize a transaction, record the transaction in the accounting records, and maintain custody of the assets resulting from the transaction. Effectively, proper segregation of duties is intended to prevent an individual from committing an act of fraud or abuse and being able to conceal it.

Events of recent years have given rise to a heightened awareness of the risks of fraud and abuse, especially in the governmental environment, where public accountability is at its highest. The purpose of internal controls is to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are properly authorized and recorded. Any limitations on the effectiveness of a government's internal control systems carry with it a greater risk of fraud and abuse.

As stated previously, the establishing and maintaining of internal controls is the responsibility of management. As the Library's independent external auditors, we are specifically banned by professional standards from performing any management functions. In other words, the annual audit is not a part of the Library's internal control structure, and cannot be relied upon as part of *management's* systems to deter or detect fraud and abuse.

While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

We would like to thank the staff of the Library for their assistance and cooperation during the audit. We look forward to working with you in the future.

This information is intended solely for the use of the District Library Board Members and management of Herrick District Library and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Lehmann Lohson". The signature is written in a cursive style with a large, prominent 'L' at the beginning.